

January 15, 2003

To: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

STATE LEGISLATIVE UPDATE

LAO Overview of the Governor's Proposed Budget

The Legislative Analyst's Office (LAO) released the attached overview of the Governor's FY 2003-04 Proposed Budget today. On the whole, while the LAO notes the Administration's estimate of the budget shortfall is "somewhat overstated", they note that the Governor's budget "represents a comprehensive plan for addressing the State's fiscal problems". The report indicates it is important that the Legislature take early and decisive action to get the State's fiscal house in order. Among notable items of interest to the County in the LAO's report are:

Budget Shortfall Estimate. In November 2002, the LAO estimated the budget shortfall to be \$21.1 billion (current and budget year). The LAO notes that the variance between their estimate and the Administration's \$34.6 billion estimate is primarily attributable to revenue and expenditure forecasting differences (\$8 billion) and definitional differences (\$5.5 billion) about what items should be included in the base line spending forecast. Because the Governor also includes these disputed items in his proposed reductions, they do not affect the size of the real problem that the Legislature needs to solve. The LAO indicates that their estimate of the problem will rise to the "\$26-plus billion range" when they release their revised estimates next month as compared to approximately \$29 million for the Governor, after adjusting for his overstatement of base line spending.

Local Government Reductions. The LAO notes that the Governor's Proposed Budget would shift \$5.1 billion away from local government via elimination of the Vehicle License Fee (VLF) backfill, shift of redevelopment-related funds, deferred mandate reimbursements and elimination of open-space subventions and booking fee reimbursements, and asks the Legislature to consider if local government can realistically absorb these reductions.

Realignment. The LAO indicates that the Governor's proposal serves as a reasonable starting point for the Legislature to discuss the desirability of expanding the 1991 Realignment. However, the LAO notes that many details of the new proposal need to be filled in, and the new plan would benefit from a "program-by-program review by the Legislature and the active participation by counties" in the discussion. Some issues of concern regarding realignment include: 1) whether counties have sufficient program authority to manage the proposed increases in funding responsibilities; 2) will the realignment revenue stream "match" the projected growth in program costs; and 3) how should realignment funds be distributed to counties and shared between programs.

Legislative Budget Hearings

The Legislature has begun hearings on the \$10.2 billion in budget reductions proposed by the Governor in December 2002. The Senate Committee on Budget and Fiscal Review has scheduled sub-committee hearings beginning on January 15 with an overview hearing on January 21 for presentations by the Department of Finance and the Legislative Analyst. The Assembly has scheduled similar subcommittee hearings beginning January 15th and continuing through January 16th. The initial hearings are taking testimony on the impacts on the reductions. There is not yet any indication of when the sub-committees will make their recommendations. However, the Legislative Leadership has indicated they expect to take action by the end of the month, as requested by the Governor. In addition, according to newspaper accounts, the Democratic Leadership in both houses have indicated that they also intend to take action to raise the vehicle license fee rate.

We will continue to keep you advised.

DEJ:GK
MAL:JF:JR:ib

Attachment

c: Executive Officer, Board of Supervisors
 County Counsel
 Local 660
 All Department Heads
 Legislative Strategist
 Coalition of County Unions
 California Contract Cities Association
 Independent Cities Association
 League of California Cities
 City Managers Associations
 Buddy Program Participants